

**American Recovery and Reinvestment Act (ARRA)
Performance Audit**

May 2011

DURHAM



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CITY OF MEDICINE

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To: Audit Services Oversight Committee
From: Germaine Brewington, Director of Audit Services
Date: May 6, 2011
**RE: Transmittal of American Recovery and Reinvestment Act
Performance Audit (May 2011)**

The Audit Services Department completed the report on the American Recovery and Reinvestment Act (ARRA) Performance Audit dated May, 2011. The purpose of the audit was twofold: 1) to ensure that City departments are complying with all regulations, performance, and reporting requirements; and 2) to determine if adequate controls exist to monitor spending of ARRA funds. A sample of ARRA expenditures was examined for the Departments of Public Works and General Services and for the City Manager's Sustainability Office. All departments had adequate controls to monitor spending of ARRA funds. One recommendation was made with regard to the Department of Public Works.

This report presents the observations, results, and recommendations of the ARRA Performance Audit. City management concurs with the recommendations made. Management's response to the recommendation is included with the attached report.

The Audit Services Department appreciates the contribution of time and other resources from the employees of the Departments of Public Works and General Services and the City Manager's Sustainability Office in the completion of this audit.

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BACKGROUND INFORMATION

The City of Durham has received American Recovery and Reinvestment Act (ARRA) funding as follows:

The City of Durham was awarded a total of **\$11,814,210** in ARRA Formula Funding. The following provides a breakdown of funding received by the various departments by funding programs.

1. Department of Community Development **\$1,305,126**

Funding Program	Funding Source	Funding Amount
Community Development Block Grant Program Recovery	U.S. Department of Housing and Urban Development	\$516,025
Homelessness Prevention and Rapid Re-Housing Program	U.S. Department of Housing and Urban Development	\$789,101

2. Office of Economic and Workforce Development **\$1,317,711**

Funding Program	Funding Source	Funding Amount
Workforce Investment Act - Youth	U.S. Department of Labor	\$495,633
Workforce Investment Act - Adult	U.S. Department of Labor	\$240,477
Workforce Investment Act – Dislocated Workers	U.S. Department of Labor	\$449,829
Workforce Investment Act - Administration	U.S. Department of Labor	\$131,772

3. Office of Strategic Initiatives – Sustainability Division **\$2,173,600**

Funding Program	Funding Source	Funding Amount
Energy Efficiency and Conservation Block Grant ¹	U.S. Department of Energy	\$2,173,600

4. Police Department **\$118,237**

Funding Program	Funding Source	Funding Amount
John J. Byrne Justice Assistance Grant (JAG)	U.S. Department of Justice	\$118,237

¹ The Department of Community Development administers this grant.

BACKGROUND INFORMATION CONTINUED

5. Public Works Department

\$1,002,160

Funding Program	Funding Source	Funding Amount
Surface Transportation Program Direct Allocation ²	N.C. Department of Transportation (NCDOT)	\$1,002,160

6. Transportation Department

\$4,961,804

Funding Program	Funding Source	Funding Amount
Large Urban Cities (Section 5307) Transit Program	Federal Transit Administration	\$4,257,465
Surface Transportation Program Direct Allocation	N.C. Department of Transportation (NCDOT)	\$ 704,339

7. General Services Department

\$935,572

Funding Program	Funding Source	Funding Amount
Surface Transportation Program Direct Allocation Program	N.C. Department of Transportation	\$ 935,572

² The City of Durham is the designated Lead Planning Agency (LPA) for the Durham-Chapel Hill-Carrboro Metropolitan Planning Organization (DCHC-MPO). DCHC-MPO has received ARRA Stimulus Funds and has distributed them among 3 departments within the City of Durham; Transportation Operation, General Services and Public Works.

Under the Section 1512 – “Job Accountability” portion of the Recovery Act, any entity receiving ARRA funds from the Federal Government is required to provide monthly “Recipient Reports”. The DCHC-MPO has assumed the responsibility of ensuring the City-wide reporting requirements are met by submitting one monthly cumulative report to the North Carolina Department of Transportation.

BACKGROUND INFORMATION CONTINUED

The City of Durham received the following ARRA Competitive Funds.

City Department	Funding Amount	Funding Source
Office of Economic and Workforce Development	\$400,000	U.S. Environmental Protection Agency (EPA)
Police	\$724,497	U.S. Department of Justice
Fleet Management	\$ 50,000	N.C. Department of Environment and Natural Resources (NCDENR)/Division of Air Quality
Fleet Management	Funding went directly to Southern Research Institute, who has developed emission control technology. They performed the retrofits at no cost to the City.	U.S. Environmental Protection Agency (EPA)
Finance	Received \$34,742,163. Closed/issued \$10,526,419 of Recovery Zone Economic Development Bonds on 8/3/10.	N.C. Department of Commerce – Recovery Zone Economic Development Bonds.

Purpose

The purpose of the audit is to ensure that City departments are complying with all regulations, performance and reporting requirements, concerning the American Recovery and Reinvestment Act (ARRA) and to determine if adequate controls exist to monitor spending of ARRA funds.

This performance audit was conducted in accordance with standards for the professional practice of internal auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

The audit focused on ARRA funds received by the following departments:

1. Department of General Services
2. Department of Public Works
3. City Manager's Office/Sustainability Office

These departments are complying with all regulations, performance and reporting requirements, concerning ARRA and adequate controls exist to monitor spending of ARRA funds. The Department of Public Works should ensure that reimbursements are requested within a reasonable period (at least quarterly).

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objectives of the audit were to determine if:

1. ARRA funds are spent on allowable expenditures according to the grant agreement;
2. Departments receiving the ARRA funds are complying with the reporting requirements pertaining to the grant award;
3. Departments receiving ARRA funds have sufficient controls in place to ensure timely drawdown of funds or reimbursement of expenditures;
4. Departments receiving ARRA funds have adequate controls in place to monitor spending of ARRA funds by sub-recipients and contractors; and
5. ARRA award and activities are identified separately in the general ledger.

Scope

The audit focused on ARRA funds received by the following departments:

1. Department of General Services
2. Department of Public Works
3. City Manager's Office/Sustainability Office

These departments had expended ARRA funds at the inception of the audit.

Methodology

Audit staff performed the following tests and procedures in order to achieve the objectives of the audit:

- Obtained and reviewed grant agreements and award documents;
- Interviewed employees responsible for spending/monitoring of ARRA funds at the selected departments;
- Obtained and reviewed reports submitted to the awarding agency;
- Obtained and reviewed contracts;
- Verified invoices to ensure funds were spent on allowable expenditures per grant agreements;
- Verified proper approval of invoices;
- Verified that reimbursements or drawdowns were requested within a reasonable period of being incurred;
- Verified proper segregation of ARRA funds and expenditure activities in the general ledger; and
- Verified monitoring performed by the departments to ensure subrecipient/contractor compliance with award responsibilities.

During the audit, the staff also maintained an awareness to the potential existence of fraud.

AUDIT RESULTS

The following table shows the funding programs audited and the related expenditures as of May 3, 2011, reported in the general ledger:

Department	Funding Program	Award Amount	Expenditures
General Services	Surface Transportation Program Direct Allocation Program	\$935,572	\$751,434
Public Works	Surface Transportation Program Direct Allocation Program	\$1,002,160	\$740,566
City Manager's Office/Sustainability Division	Energy Efficiency and Conservation Block Grant	\$2,173,600	\$728,581

Audit staff performed tests to verify the following:

1. ARRA funds are spent on allowable expenditures according to the grant agreement;
2. Departments receiving the ARRA funds are complying with the reporting requirements pertaining to the grant award;
3. Departments receiving ARRA funds have sufficient controls in place to ensure timely drawdown of funds or reimbursement of expenditures;
4. Departments receiving ARRA funds have adequate controls in place to monitor spending of ARRA funds by sub-recipients and contractors; and
5. ARRA awards and activities are identified separately in the general ledger.

AUDIT RESULTS CONTINUED

Results of the tests performed are as follows:

Funding Program	Attributes				
	1	2	3	4	5
General Services	Yes	Yes	Yes	Yes	Yes
Public Works	Yes	Yes	Note 1	Yes	Yes
City Manager's Office/Sustainability Office	Yes	Yes	Yes	Yes	Yes

Note 1

The Department of Public Works received a total of \$1,002,160 of ARRA funds from the N.C. Department of Transportation. These funds were allocated to three projects: Construction of Sidewalks; Resurfacing of the American Tobacco Trail and North-South Trail; and Reconstruction of the Intersection of Miami Boulevard and Geer Street. Audit staff verified the above five attributes for two of the three projects. For both of these projects, the Department of Public Works has not requested reimbursement for \$312,727 of expenditures incurred prior to December 31, 2010. Effective cash management suggests that City personnel should request reimbursements for expenditures already paid for with City funds within a reasonable period. Audit staff considers requesting reimbursements quarterly as reasonable.

- **Resurfacing of the American Tobacco Trail and North-South Trail**
 - Total expenditures to date amount to \$327,086;
 - \$117,453 of the total expenditures have been reimbursed by the N.C. Department of Transportation;
 - Reimbursement has not been requested for \$209,633, of total expended funds. \$205,914 of these expenditures were incurred in October 2010.
- **Construction of Sidewalks**
 - Total expenditures to date amount to \$333,480;
 - \$191,944 of the total expenditures have been reimbursed by the N.C. Department of Transportation;
 - Reimbursements have not been requested for \$141,536, of total expended funds. \$106,813 of these expenditures incurred prior to December 31, 2010.

Recommendation 1

The Department of Public Works should request reimbursement for expenditures incurred within a reasonable period (at least quarterly).

MANAGEMENT'S RESPONSE

**CITY OF DURHAM**

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Date: May 16, 2011

To: Germaine Brewington, Director of Audit Services

From: Ed Venable, Manager of Engineering and Stormwater *EV*

Subject: Public Works Response
American Recovery and Reinvestment Act Compliance Audit (May 2011)

Public Works agrees with the findings of the Compliance Audit. Procedures are in place to ensure reimbursements are completed quarterly.